# Psychic Distance and Country Image in Exporter–Importer Relationships

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## ABSTRACT

Conflicting evidence on the issue of psychic distance (PD) in international business relationships suggests the existence of misunderstood boundary conditions to its effect. This article argues that country image (CI) is a contingent factor to the effect of PD. Expectancy–value theory provides the theoretical foundations for this argument. Based on structural equation modeling, analyses for a sample of 358 exporter–importer relationships in the global wine industry provide empirical support. Product-related CI mitigates the negative impact of PD on the relational exchange orientation (REO) between firms. Specifically, a high level of PD dampens REO when product-related CI is poor, whereas a strong product-related CI helps firms facing such PD conditions to build REO irrespective. People-related CI has an indirect effect on REO through product-related CI. Our study contributes to explaining the *paradox of distance* and offers a fresh perspective on how to handle the issue of PD *when* relevant.



## KEYWORDS

Psychic Distance, Country Image, Relational Exchange, Exporter–Importer Relationships.

The impact of psychic distance (PD) on market selection and entry, marketing adaptation strategies, and interfirm relationship success is a long-standing area of interest among international marketing scholars (Magnusson and Boyle 2009). As per the dominant position in the literature, that PD is an individual-level, subjective influence on marketers (Håkanson and Ambos 2010), we define PD as managers' perceived dissimilarity between home- and foreign-country environments (Evans, Mavondo, and Bridson 2008; Håkanson and Ambos 2010; Katsikeas, Skarmeas, and Bello 2009; Sousa and Lages 2011). A key reason why PD continues to capture scholars' attention is the contradictory evidence found in empirical studies. In the area of exporter–importer relationships—the focus of our study—research has mainly highlighted detrimental effects of PD (Leonidou et al. 2014; Skarmeas et al. 2008). Yet, closer inspection of the literature reveals mixed evidence. For instance, studies have invalidated negative effects of PD on relationalism (Bello, Chelariu, and Zhang 2003) and trust (Leonidou, Barnes, and Talias 2006).

Scholars have attributed contradictory evidence on the outcomes of PD to O'Grady and Lane's (1996) *paradox of PD*. This postulates that while entering low PD markets is supposed to facilitate performance according to classic internationalization theory (Johanson and Vahlne 1977), firms doing so experience shocks caused by unanticipated differences. In our view, the reason for the paradox and mixed empirical evidence is the existence of misunderstood contingencies under which the impact of PD varies. Indeed, despite Magnusson and Boyle's (2009) call for empirical studies to develop knowledge about boundary conditions (i.e., moderators) to the effect of PD, this remains a gap in the international marketing literature. The gap deserves acute attention as it is preventing researchers from making accurate recommendations guiding managers' efforts to address PD in their firms' relationships. Considering the importance of relationships as drivers of competitiveness, innovation, customer satisfaction, and performance (Ulaga and Eggert 2006; Walter, Ritter, and Gemünden

2001) in international settings (Bello et al. 2003; Zhang, Cavusgil, and Roath 2003), it is necessary to identify contingent factors that help reduce the effect of PD in cross-border business relationships, *when* appropriate.

In targeting the abovementioned knowledge gap, we focus on the theoretically meaningful contingent factor, country image (CI). A favorable CI figures among the information cues that make products and foreign partners more attractive to industrial buyers and sellers (Ahmed and D'Astous 1995; Bradley 2001; Knight, Holdsworth, and Mather 2007; Vinhas da Silva, Davies, and Naude 2001). As such, CI is a factor that increases valence (worth) in the relationship and can motivate managers to overcome perceived differences between country environments when doing business with foreign partners. The expectancy–value approach from social psychology (Atkinson 1957; Vroom 1964) provides the theoretical foundation for this argument. The objective of the article is to test this argument by considering CI as a moderator of the effect of PD in relational exchanges. Thus, the research question driving this paper is: "Does CI moderate the effect of PD on relational exchange orientation (REO) in international markets?"

We test our assumptions using a sample of 358 relationships of wine exporters and importers. The findings provide support for our theoretical arguments and an affirmative answer to our research question. Although we acknowledge the existence of a negative direct effect of PD on REO, we find that product-related CI moderates this effect. The people-related form of CI exerts an indirect influence on REO via product-related CI. We thus observe different roles of people- and product-related CI, with the latter serving as a boundary condition to the effect of PD. Specifically, a high level of PD undermines relational exchanges between partners under conditions of poor, rather than strong, product-related CI.

From a theoretical perspective, our study enriches research on exporter–importer relationships and potentially other phenomena affected by PD in international markets. To our

knowledge, the current study is the first to identify and test empirically CI as a boundary condition to the effect of PD on REO and, in doing so, it contributes to explaining the mixed empirical evidence and deepening insight into the paradox of PD (Håkanson and Ambos 2010; Magnusson and Boyle 2009). In using expectancy–value theory, the study reconciles research on PD and CI, two constructs that have been studied separately for decades. From a managerial perspective, we reveal that PD should *not always* be closed in international channel relationships. To handle the effect of PD appropriately with foreign partners, marketing managers should consider the favorability of their product-related CI and, to a lesser extent, their people-related CI.

## THEORETICAL BACKGROUND AND HYPOTHESES

Prior to theorizing the interplay between PD and CI in affecting REO, we provide conceptual background about REO and the way it is driven by PD and CI according to extant research.

### The REO Concept

The idea that relationships and transactions are the two extremes of a relational/transactional continuum in interfirm exchange is central to the field of relationship marketing (Anderson and Narus 1991; Dwyer, Schurr, and Oh 1987). The nature of exchange along the continuum depends on a variety of norms (e.g., flexibility and solidarity), behaviors (e.g., communication and cooperation), and situations (e.g., time orientation and interdependence) (e.g., Anderson and Narus 1990; Heide and John 1992). In line with Sheth and Shah's (2003) study, which coined the term *exchange orientation*, we define REO as repeated and maintained episodes of exchange over time with trust, commitment, communication, and cooperation between the partners. We use the term REO interchangeably with relationships and relational exchanges.

Our focus is on REO to capture the nature of exchange along the transactional/relational continuum, rather than on relationalism or relationship quality. First, relationalism has been

mainly captured by norms alone (e.g., Bello et al. 2003). We wanted to go further in capturing the nature of exchange along the transactional/relational continuum by incorporating the central trust–commitment component and key behaviors such as cooperation. Second, relationship quality has been treated as an overarching relational construct, and has mainly been operationalized based on trust, commitment, and satisfaction (Skarmeas et al. 2008), with additional components such as cooperation and communication (Leonidou et al. 2014). Although it is conceptually close to REO, relationship quality often includes a measure of exchange outcomes (e.g., satisfaction). Our conceptual treatment of REO assumes instead that positive exchange outcomes would flow from the relationship (Leonidou et al. 2014). To this point, theories of interfirm relationships (e.g., transaction costs and social exchange theories) identify *expected outcomes* as a core explanatory mechanism underpinning relational exchanges (Anderson and Narus 1990).

**Negative Effect of PD on REO**

In the international marketing literature, competing ways of conceptualizing and operationalizing PD coexist. First, the *objective approach* relies on secondary data and objective measures of differences between countries (e.g., number of kilometers between countries and GDP/capita) (e.g., Brewer 2007; Dow and Karunaratna 2006). Second, the *subjective approach* uses perception-based techniques to collect primary, individual-level data on these political, legal, economic, sociocultural, and technological (PEST) differences (Evans et al. 2008; Sousa and Lages 2011). We align ourselves with the vast majority of studies on PD in cross-border relationships that have adopted the subjective approach. As per Evans and Mavondo (2002a, p. 516), "… it is the mind's processing, in terms of perception, of cultural and business differences that forms the basis of psychic distance." The development of any interfirm relationship is an informal process influenced by perceptual constructs (Katsikeas et al. 2009).

Notwithstanding the consensual use of perceptual PD in the international relationships literature (cf. Zhang et al. 2003), we observe marked diversity in the conceptual treatment of PD in the literature (see Table 1, for empirical studies published since the year 2000). Researchers have conceptualized PD by relying on the extent to which managers: perceive degrees of dissimilarity/differences between their home country and their foreign partner's country (e.g., Griffith and Dimitrova 2014; Johnston et al. 2012; Katsikeas et al. 2009), are familiar with these differences (e.g., Heroux and Hammoutene 2012; Leonidou et al. 2006; Leonidou et al. 2011), or find these differences problematic (Bello et al. 2003). Some studies focused on differences between countries (e.g., Katsikeas et al. 2009; Skarmeas et al. 2008), while others focused on differences between companies (in regard to business environments, working methods, etc.) (e.g., Leonidou et al. 2011; Leonidou et al. 2014).

**- Insert Table 1 about here -**

Regarding the unit of analysis, it was occasionally difficult to retrieve precisely which type of relationship respondents were asked to select and answer for. Moreover, variations can again be observed. Studies focused on relationships with reference to their: size (e.g., the largest or third largest partner) (Griffith and Dimitrova 2014; Skarmeas et al. 2008), representativeness (e.g., the majority of foreign customers) (Leonidou et al. 2006; Leonidou, Katsikeas, and Hadjimarcou 2002), or difficulty (e.g., the most challenging partner) (Zhang et al. 2003). The industries of the studied business relationships often were not well reported, and nor were the foreign countries; the home country—where the exporter/importer sample was recruited—was reported. Failure to specify the nationality of both partners may not have been an issue for the purpose of the studies, but it makes it difficult to extrapolate from their findings. For instance, there is no easy way to assess whether observations were made in base conditions of low,

moderate, or high PD between the home and foreign countries. The degree of PD could lead to different behaviors and consequences in relationships (Magnusson and Boyle 2009).

The empirical studies do not theorize contingent relationships between PD and relational exchanges despite theorists' encouragement to do so. For instance, Conway and Swift's (2000) conceptual study positioned PD as an antecedent to trust and commitment in international relationships, with varying degrees of impact depending on stage of the relationship. Magnusson and Boyle (2009) extended this idea to the PD paradox by positing that when a cross-border relationship is in an early phase of development, the effect of PD could be detrimental in a context of high PD (it increases uncertainty and inhibits trust) but relatively insignificant in a context of low PD (assumed similarity does not threaten effective exchanges). When the relationship is at a more advanced stage, PD could be beneficial to firms in a context of high PD (uncertainty is reduced due to ongoing information sharing between partners) but be detrimental in a context of low PD (poor outcomes resulting from inattention to small differences hurt the relationship). This line of conceptual research indicates the importance of documenting both home and foreign countries, and of capturing various degrees of PD to investigate its effects in business relationships.

Both transaction costs theory (Williamson 1975) and social exchange theory (Macneil 1980) explain why PD is likely to deter relational exchanges. From a transaction costs perspective, all forms of distance (e.g., geographic, cultural, and economic) generated by differences in the PEST environments of countries not only increase direct costs (e.g., tariffs in the absence of regional trade agreements), but indirect costs too. Searching for information abroad takes longer, reaching satisfactory agreements with foreign partners is more difficult, adapting agreements to unexpected contingencies becomes more frequent, and associated monitoring more costly. From a social exchange perspective, the expectation is that a partner will act in a predictable manner to build a foundation of trust and other relational norms and

behaviors (Anderson and Narus 1990; Dwyer et al. 1987). PD hinders predictability and, thus, the development of social exchange relations (e.g., Katsikeas et al. 2009; Leonidou et al. 2006; Skarmeas et al. 2008).

PD should be a real problem in exporter–importer relationships. Samiee and Walters (2006, p. 594) noted that: "The international context invariably introduces some additional barriers: time-zone, language, lack of or limited face-to-face contacts, and cultural differences. These barriers impede information flows which are so critical to relational exchanges…" PD emerges from the factors that interfere with the way firms learn about and understand foreign environments and, thus, foreign business partners' behaviors (Johanson and Vahlne 1977; Nordstrom and Valhne 1994). According to Johanson and Vahlne's (2009) later retrospective, although the impact of PD on export market entry order has weakened in the intervening years, low levels of PD continue to help exporters recognize and develop relational opportunities abroad.

In line with transaction costs, social exchange, and internationalization theories, studies have found a negative impact of PD on the level of harmony within export relationships (Leonidou et al. 2002), trust and relationship quality between exporters and importers (Leonidou et al. 2014; Skarmeas et al. 2008), and importers' perceived relationship value with foreign suppliers (Skarmeas, Zeriti, and Baltas 2015).

On the other hand, several studies present confounding results that seem to defy straightforward explanation. For instance, Bello et al. (2003) invalidated the hypothesized negative relationship between PD and relationalism. To explain this finding, they postulated that PD may incite managers to adopt more of a contractual governance structure rather than a relational one. Leonidou et al. (2006) stopped short of offering an explanation for their results' partial validation of the expected negative impact of PD on the relationship quality components. Griffith and Dimitrova (2014) observed that business distance reduces the

positive effect of complementarity of capabilities on exporters' satisfaction with their performance in international markets, while cultural distance enhances it. These authors did not place emphasis on explaining this surprising opposite influence. Finally, Johnston et al. (2012) were unable to confirm that PD moderates the relationship of trust and satisfaction with joint action. They explained this result in the following manner: "… though psychic distance might thwart the positive relational environment built by trust and satisfaction, buyers might still opt for joint action with sellers due to consideration of possible accomplishment of common goals […] Another plausible explanation could be the existence of calculative commitment among buyers, which indicates an economic rationale behind the continuance of a relationship […] Thus, commitment may enable buyers to overcome the detrimental effects of psychic distance and engage in joint action with sellers" (Johnston et al. 2012, p. 45). As such, these authors point to the role of expected outcomes as a possible offsetting factor to the negative effects of PD.

We acknowledge discrepancies in the theorization of PD effects within international channel relationships, and the absence of a satisfactory explanation for the mixed empirical evidence. Nonetheless, theory-driven arguments support a detrimental direct effect of PD on relational exchanges in exporter–importer ties. Consequently, we hypothesize that:

$H_1$: The larger the PD, the weaker the REO.

**Positive Effect of CI on REO**

In the international marketing literature, different conceptualizations of CI also coexist. There is agreement that CI is a subjective (not objective) matter and the term image refers to a mental representation or picture (Jaffe and Nebenzahl 2001). Instead, scholars have debated the macro- versus micro-level of analysis of CI and the dimensions of countries that best reflect their international image (environments, people, or products). Table 2 illustrates the diversity of approaches and presents a sample of representative studies on CI.

**- Insert Table 2 about here -**

Among the two conceptualizations of country macro image (PEST-environment and people-related CI), we chose to focus on people-related CI for two reasons. First, beliefs about people are likely to play a more significant role in a study of business relationships with foreign partners compared to beliefs about a country's environment. Second, measures used to capture environment-related CI occasionally overlap with measures of PD. For instance, Parameswaran and Pisharodi (1994), and other studies extending their work, captured the macro country image (i.e., *general country attributes*) by measuring perceptions of differences/similarities between home and foreign countries in terms of politics, culture, and economy. In the present study, PD already captures this comparison between home- and foreign-country environments.

In the literature on the micro image or product-related CI, Roth and Romeo (1992, p. 480) specified that: "Country image is the overall perception consumers form of products from a particular country, based on their prior perceptions of the country's production and marketing strengths and weaknesses." In this article, we build on Roth and Romeo (1992) and Roth and Diamantopoulos (2009) to define product-related CI as an individual's beliefs about a country in connection to a specific product category. In turn, we rely on Laroche et al. (2005) and Zeugner-Roth, Diamantopoulos, and Montesinos (2008) to define people-related CI as an individual's beliefs about a country in connection to its people.

Another important discussion relates to the way CI should be conceptualized with regard to processes that lead to image formation in individuals' minds. In their extensive review of the CI construct, Roth and Diamantopoulos (2009) showed that the majority of previous studies have emphasized cognitive processes (e.g., beliefs formed on the basis of information), while only a minority looked into affective processes (e.g., emotions). These authors also highlighted the need for studies to better incorporate normative processes (e.g., pressure from important others) as well as processes related to conation (e.g., behavioral intention). The conative aspect

in CI work has been defined as a motivational and volitional component reflecting consumers' desired level of interaction with the sourcing country (Knight et al. 2007).

The theories of reasoned action and planned behavior (Fishbein and Ajzen 1975, 2010) are commonly used to explain the effect of CI on behaviors. These theories posit that beliefs and norms translate into attitudes that guide behaviors. Considering that CI is accepted as a belief (Martin and Eroglu 1993; Nagashima 1970), the country-of-origin effect is the attitude toward a specific country that derives from its CI. Norms and values related to, for instance, patriotism, ethnocentrism, and attractiveness of a foreign culture, influence the extent to which the country-of-origin effect, as an attitude, is favorable. In turn, the attitude (e.g., like/dislike) toward a specific country determines behaviors (e.g., seek/avoid) in relation to its people or products (e.g., Jaffe and Nebenzahl 2001; Roth and Diamantopoulos 2009).

We assert that beliefs about a country in connection to its people and their characteristics, such as friendliness, creativity, hard work, and technical skills (Zeugner-Roth et al. 2008) can shape the relational behaviors of teams of managers. Qualities of interfirm relationships develop from those of interpersonal ties. To this point, Styles, Patterson, and Ahmed (2008) noted that the likeability of business partners is a driver of affective commitment and goodwill trust in exporter–importer relationships. In a study of importers' relationships, Barnes et al. (2015) observed that the combination of personal characteristics and familiarity with the exporting firm's ethnic origins is conducive to interfirm trust. Further, the corporate image of exporters (importers), which is a function of their country image, could be expected to influence the relational preferences of industrial buyers (sellers) (cf. Bradley 2001). A favorable people-related CI is thus conducive to REO as it contributes to the development of interpersonal ties between the exporting and importing firms' managers, and of a corporate reputation that elevates the overseas partner's sense of sureness in the relationship.

Extensive research has shown that a favorable CI leads to positive attitudes from end-consumers toward products from a specific country, which, in turn, promote favorable intentions and behaviors (Jaffe and Nebenzahl 2001; Pharr 2005). In industrial marketing, the topic is seldom studied even if research has established that professional buyers are similarly affected by the image of countries in their product evaluations (Ahmed and D'Astous 1995; Verlegh and Steenkamp 1999) and international sourcing decisions (Vinhas da Silva et al. 2001). In a study of CI shaping industrial purchasers' perceived value of food products, Knight et al. (2007, p. 121) unveiled that: "…the mode of action of a product-country image summary construct is to provide channel members with a shorthand notation for trust. Trust appears to be the central component that enhances perceived quality while minimizing perceived monetary sacrifice—thereby leading to enhanced perceived value…" In a review of the literature on importer behavior, Leonidou et al. (2011) emphasized the importance of product quality criteria in the selection of suppliers. Moreover, it is likely that a firm's beliefs about the partner's country in connection to its understanding and appreciation of product quality and consistency of quality, are important drivers of relationship value and continuance (cf. Ulaga and Eggert 2006). Hence, we also expect a favorable product-related CI to enhance REO:

$H_{2a}$: The more positive the people-related CI, the greater the REO;

$H_{2b}$: The more positive the product-related CI, the greater the REO.

Few studies have investigated the effect of the micro image on the macro image of countries, which has been labeled as the reverse country-of-origin effect (e.g., Lee and Lockshin 2012). Instead, different theorizations of the effect of the origin cue (i.e., halo, summary, or heuristic default) on product evaluation suggest the existence of a transfer from the macro to the micro image (Laroche et al. 2005; Oberecker and Diamantopoulos 2011). For instance, Knight et al. (2007, p. 109) argued that "…it is possible for a product-country image to change over time, sometimes rapidly, either by design or as a result of technological, social

or political change. Judgments consumers make about a country and its people transfer to evaluations of the performance of products from that country." Accordingly, we propose that within cross-border relationships the reputation of people from a given country benefits the reputation of its products. Thus:

$H_3$: The more positive the people-related CI, the more positive the product-related CI.

**Moderating Role of CI in the Relationship of PD and REO**

We turn to an established behavioral theory, the expectancy–value approach, in order to theorize the interaction of PD and CI in connection to REO. The approach traces its origins back to the set of theories in psychology developed in the 1940s and 1950s to explain motivation, performance, decision-making, learning, and cognition (Feather 1959). One of the most cited is Atkinson's (1957) risk-taking model and later developments. Another is Fishbein's expectancy–value model, developed in the early 60s to link beliefs to attitudes, which later became a pillar of the reasoned action theory (Fishbein and Ajzen 1975, 2010). Over the decades, the expectancy–value approach has been extended to a variety of domains including, but not limited to, education, health, management, and communications. Other variables have been incorporated but expectancy and value have remained central to the model, albeit under different names. Within this overall approach, expectancy theory (Vroom 1964) explains that motivation to perform in the workplace depends on expectancy (belief that performing is feasible), instrumentality (belief that performing will lead to expected outcomes), and valence (belief that performing is worth the effort).

We draw upon the channel relationships literature to understand how the expectancy–value approach can extend to exporter–importer ties. Expectancy theory has been recognized as a valid framework to analyze interfirm relational exchanges (Dwyer, Dahlstrom, and DiNovo 1995). In this context, Frazier (1983, p. 71) explained that: "The higher the expected rewards and the required investments, the higher a representative will set the firm's goals and the higher

the motivation for making the relationship a success…". Following this logic, we propose to situate CI in relation to *expected rewards* and PD in relation to *required investments*. Managers expect positive outcomes in international markets (e.g., export performance and competitiveness) and are motivated to develop or maintain relationships with foreign partners to reach these goals. In Vroom's (1964) terms, relationships are therefore instrumental to success in international markets. For managers, the belief sustaining this view of instrumentality could translate as: Interacting with this specific foreign partner in a relational orientation—that is, trusting them, committing, cooperating, and communicating with them—will lead to positive outcomes.

As for valence, the concept of relationship value suggests what valence can mean in international relationships. Defined as a trade-off between benefits received and costs incurred in a given relationship, value in relationships can stem from higher product quality and consistency of quality over time, on-time deliveries, know-how improvements, better support services, pleasant personal interactions, lower operation costs, etc. (Ulaga and Eggert 2006). As such, the belief underlying valence in managers' minds could translate as: A relationship with this foreign partner will bring our firm important cost reductions and benefits in terms of products, services, and much more; thus it is worth the effort developing and maintaining. A favorable CI is likely to increase valence—the belief that interacting in a relational manner with foreign partners is worth the effort. A favorable product-related CI will raise expectations of benefits in terms of product quality and associated know-how. In turn, a favorable people-related CI should raise expectations of benefits in terms of personal interactions and services, for instance.

Finally, we turn to expectancy, which, in Vroom's (1964) terms, is the subjective probability that effort leads to performance. The beliefs underlying expectancy in managers' minds could translate as: The efforts we put into exchanges with this foreign partner will allow

us to develop/maintain a relationship with them. Exchanges with foreign partners require increased efforts and investments in time and human and financial resources. Examples include trusting people with different values, committing under different legal systems, cooperating across time differences, and overcoming (non)verbal differences in communication. For this reason, we situate PD as a factor decreasing managers' expectancy, or the belief that they can succeed in interacting with foreign partners in a relational manner and, ultimately, seize expected outcomes.

A pillar of the expectancy–value approach is the multiplicative function between expectancy and valence. For instance, Atkinson (1957, p. 360) stated that: "The strength of motivation to perform some act is assumed to be a multiplicative function of the strength of the motive, the expectancy (subjective probability) that the act will have as a consequence the attainment of an incentive, and the value of the incentive...". More recently, Nagengast et al. (2011, p. 3) explained that: "The cornerstone of [Expectancy–Value Theory] EVT was the critical role of the expectancy-by-value interaction (E×V). […] EVT predicted a multiplicative pattern of relations between expectancy, value, and resulting motivation. To achieve a high level of motivation, both expectancy and value had to be high. If either expectancy or value were low, high values on the other dimension were of little or no consequence for motivation and behavior." In like manner, we propose that PD and CI interact in a multiplicative way in shaping REO. Specifically, forms of CI serve as moderators of the main PD to REO relationship. The logic is that a favorable CI will raise valence and motivate managers to overcome the detrimental effects of PD in the development of cross-border relationships. In sum, we posit that the effect of PD on REO depends on people- and product-related CI:

$H_{4a}$: People-related CI moderates the path between PD and REO in such a way that the more positive the people-related CI, the weaker the negative effect of PD on REO;

$H_{4b}$: Product-related CI moderates the path between PD and REO in such a way that the more positive the product-related CI, the weaker the negative effect of PD on REO.

The theoretical framework comprising the study hypotheses is depicted in Figure 1.

**- Insert Figure 1 about here -**

## METHODS

### Research Context

Our study tested the hypotheses using survey data from exporters and importers in the global wine industry, which was selected as a relevant context for the specific purposes and design of this study for three reasons. First, an industry-specific approach lends itself to the variables studied. Product-related CI strongly relates to particular product categories and is commonly studied in the context of specific industries (e.g., cars, clothing, and food). As this study is the first to investigate the role of CI in relation to PD in international channel ties, we required a single industrial context where origin effects are evident. Although prior research in the global wine industry has mainly focused on end-consumer behaviors (e.g., Felzensztein and Dinnie 2005), we can assume that industrial buyers are also sensitive to the origin of wines, if only because of its impact on final consumers.

Second, the global wine industry is conducive to both transactional and relational exchanges. Wines present the advantage of being treated as specialty products (high product involvement) or commodities (low involvement) depending on their price and origin. For high-end wines, firms not only derive advantages from the quality and scarcity of raw materials (i.e., grapes) but also from processing skills and craft that accumulate over time. This aspect of the industry encourages long-term relationships between buyers and sellers. For low-end products, an arm's length market trades wine in bulk across borders with prices and quantities as the main criteria for (transactional) exchange. Third, distances between trade partners in the global

wine industry have been widening, not shrinking, with new producers and consumers emerging from developed and developing economies. In Bartlett's (2009) terms, New World wine producers (e.g., USA, Australia, and Argentina) have initiated a *global wine war* against exporters from the Old World (e.g., France, Spain, and Italy) over the big emerging markets (e.g., Brazil, India, and China).

**Operationalization of Constructs**

We used a perception-based approach to operationalize all constructs as we aimed to understand how perceptions and beliefs about foreign countries influence managers' behaviors in exchanges with international partners. After having carefully screened the relevant literature, we chose existing scales for PD (Sousa and Lages 2011), people-related CI (Zeugner-Roth et al. 2008), and product-related CI (Felzensztein and Dinnie 2005). The latter scale is particularly relevant as it was developed for the chosen product category and measures beliefs about countries in connection to wine, rather than beliefs about wine in connection to countries. We used Sousa and Lages' (2011) 13-item scale for PD as is, but we adapted available scales for people- and product-related CIs in two ways. First, we converted them to five-point semantic differential scales, as per Martin and Eroglu's (1993) recommendations for the image construct. Then, we developed mirroring versions since they had only been developed from the perspective of buyers.

For REO, we developed a global scale to capture the orientation of exchange along the transactional/relational continuum. Prior research has measured trust, commitment, long-term orientation, communication, and cooperation among firms using a set of multi-item scales (e.g., Anderson and Narus 1990; Leonidou et al. 2011; Morgan and Hunt 1994; Obadia 2008; Whipple, Lynch, and Nyaga 2010); but doing so leads to lengthy questionnaires and lower response rates. To solve this problem, we captured REO using items tapping well-documented behavioral dimensions from the literature as first-order dimensions. Specifically, we used five

items that tap each of the trust, commitment, cooperation, information exchange, and time orientation dimensions, and a sixth item assessing from "purely arm's length exchange" to "close and personal relationships". Appendix A presents the items and scales used to measure the study constructs.

We included four salient variables from the literature as controls: *Product price* as a proxy for product involvement—situations of high involvement (characterized by intensive pre-purchase planning, for instance) could induce more relational exchanges, with trust and communication as uncertainty coping mechanisms (Sheth and Shah 2003); *Relationship duration* and *knowledge of partner country* (i.e., knowledge gained from the informant's personal experience of the country)—as these increase, the exchange orientation becomes more relational by virtue of accumulated experience and enhanced trust (cf. Barnes et al. 2015; Katsikeas et al. 2009); *Role in the supply chain*—being in a buying/importing role could increase REO as securing product quality and quantity is of more strategic importance than disposing of goods in a selling/exporting role (Geiger et al. 2012). Single-item, seven-point scales were used to measure product price ("under 5$" to "over 40$", in US currency) and relationship duration ("under 1 year" to "over 20 years"). A single-item, five-point bipolar scale (with endpoints "very limited knowledge" and "very extensive knowledge") was developed to capture knowledge of partner country. Finally, firm type was recorded and recoded to tap role in the supply chain (i.e., 1 = exporter, 2 = mixed, or 3 = importer roles).

**Questionnaire Development and Pretest**

The survey instrument for the study was an online questionnaire built using Unipark's Questback EFS 10.1 software. To ensure content validity, a first version of the questionnaire was discussed with six business managers in the wine industry from the exporting side and three managers from the importing side. The present study is part of a larger research project that looked into role differences in business relationships. For this reason, some decisions made

about the survey design (e.g., collecting both buyers' and sellers' opinions) were motivated by the larger project. The one-on-one discussions with wine professionals helped ensure that the items were well understood by people in the wine business and that the provided pre-set list of countries was germane to the setting. In addition, eight academics specializing in international relationship marketing were asked to ensure that the items adequately captured the variables under study. We then refined the questionnaire in light of comments made by both of these groups.

To obtain as much variation as possible in terms of PD and CI, it was important to make the questionnaire available in several languages. We followed standard procedures for translation and back-translation of the questionnaire, which was initially drafted in English. After this procedure, we were able to provide it in six languages: English, French, Spanish, Mandarin, Russian, and Portuguese. We then sent an online survey to 3,629 wine importers and exporters (compiled from a listing purchased from Best Wine Importers and from a manual search of wine association members in the top 10 wine producing countries). This pilot survey yielded 70 questionnaires, a sufficient number to pretest our survey instrument. The validity and robustness checks conducted on this sample led us to drop two items from the PD scale and two items from the people-related CI scale (see Table 3). The other scales did not require adjustments.

**Survey Instrument and Informant Quality**

Structured in three parts, the questionnaire first asked respondents to identify a specific wine category that they were either purchasing or selling in two different foreign countries. For the selection of the product category, respondents were given the choice between red, white, rosé, and sparkling wine, along with seven retail price points (ranging from under US$4.99 to above US$40). For the selection of two countries, we provided a pre-set list of countries among traditional (France, Germany, Italy, Portugal, and Spain) and emerging (Argentina, Australia,

Canada, Chile, New Zealand, South Africa, and the USA) supply markets for buyers; as well as among traditional (Canada, France, Germany, the United Kingdom, and the USA) and emerging (Brazil, China, India, and Russia) markets for sellers. We designed the questionnaire so that the respondents' answers were automatically incorporated into the remainder of the questionnaire. The next step consisted of asking respondents to think about their largest business partner (in terms of volume purchased or sold) for this specific category in each of the two selected countries. After confirming this mental selection (using a "yes/no" attention control question), respondents were asked to answer the rest of the questionnaire with these two business partners in mind (without naming them).

In the second part of the questionnaire, respondents were asked to characterize the REO for both partners, the degree of similarity or difference between their country of work and the two partners' respective countries, and the image of each country with regard to people in general and wine in particular. The third part collected data on demographics and controls. We also measured the key informants' *competence* on a five-point scale in terms of: degree of self-confidence in portraying the selected business relationships accurately; personal involvement in the relationships; and decision-making power with regard to doing business with the two selected partners—for a similar procedure, see Ulaga and Eggert (2006).

**Data Collection and Survey Response**

For the main data collection, we opted to send the questionnaire through Global Wine & Spirits (GWS), a specialized electronic marketplace in the global wine industry (B2B only). Based in Montreal, this platform connects 6,700 buying and selling companies located in nearly 100 countries. Overall, data collection lasted six weeks. We followed the procedure for online surveys recommended by Dillman, Smyth, and Christian (2008). The survey was first announced in the GWS' weekly newsletter and then sent via email to members on two separate occasions (at a 10-day interval), along with a cover letter in English. Over this time period, 927

individuals opened the link to the survey included in the email leading to the language selection page. Out of this total, 722 selected the language of their choice, moved on to the introduction page, and started answering the survey. From this effective sampling frame, we received 235 responses. We discarded 13 answers owing to missing data, 34 because informants had chosen partners from their own country instead of foreign ones, and 9 due to low competence (below the scale mid-point) in portraying the relationships with foreign partners. As a result, we obtained 179 valid answers, giving an effective response rate of 24.8% that compares favorably with other studies on international relationships (Griffith and Dimitrova 2014). Since each respondent was asked to report on two business relationships, we collected a sample of 358 relationships.

The informants worked in 35 countries and answered for foreign partners from 16 countries. The collected sample is characterized by a diversity of country pairings (e.g., an exporter from France assessing the exchange with importers from China and Australia; an importer from Canada assessing the exchange with exporters from the USA and Italy), and thus by high degrees of variation in terms of PD and CI evaluation. Appendix B.1 provides detail on the study participants and Appendix B.2 shows characteristics of the analyzed relationships.

## ANALYSIS AND RESULTS

### Measure Validation

We first conducted tests for sampling adequacy, language bias, and non-response bias. A Kaiser-Meyer-Olkin statistic of .89 demonstrates no issue with sampling adequacy. As the questionnaire was available in various languages, we looked for signs of language bias by testing (t-tests) for differences in the study constructs for English versus non-English responses. The test yielded non-significant results ($p > .05$), indicating the absence of language bias. Assuming respondents who answered in the last stage of the data collection are similar to actual non-respondents, we compared (t-tests) laggard respondents with the early ones on the study

constructs. Again, no significant differences ($p > .05$) were noted, suggesting the absence of non-response bias.

Subsequently, we evaluated the reliability and validity of the constructs (Hair et al. 2010). For reliability, we observed Cronbach's alpha (> .73) and composite reliability (> .70). For convergent validity, we found average variance extracted (AVE) (> .57) and standardized factor loadings (> .70). Table 3 shows that the measurement analyses indicated good reliability and convergent validity. Further, Table 4 presents correlations among the latent variables in the study—including our controls—together with scale means and standard deviations. Correlations between the independent variables falling below the recommended threshold of .30 (Hair et al, 2010) indicate that multicollinearity is not likely to be a problem in the study. There are no discriminant validity issues as every squared correlation exceeds the relevant AVE scores.

**- Insert Table 3 and Table 4 about here -**

We also checked for common method bias using the marker variable approach (Podsakoff et al. 2003). We first included a marker variable (i.e., a construct theoretically unrelated to other constructs in the model) in advance, so there is an a priori justification for predicting a zero correlation. Following Leonidou et al. (2011), we used experience in position to serve as a marker variable. Second, we adopted post-hoc identification of a marker variable via the second smallest correlation among the variables in the study (i.e., r = .01). To implement the two tests, we computed a method bias-adjusted correlation matrix in line with Malhotra, Kim, and Patil (2006). In both cases correlations remained stable, indicating the absence of method bias.

**Test of Hypotheses**

We deployed structural equation modeling (SEM) to test our hypotheses, via STATA. Specifically, we estimated a parsimonious model in which the control variables were included as drivers of REO. We followed Byrne's (2010) recommendations for model assessment. Hence, we considered the chi-square ratio (i.e., to degrees-of-freedom) and a variety of other fit indices. The theorized model indicated good fit: $\chi^2$/df = 2.30, GFI = .91, NFI = .92, CFI = .94, TLI = .91, RMSEA = .06. Table 5 presents the path coefficients and their significance for each hypothesis.

**- Insert Table 5 about here -**

As per $H_1$, we find that PD negatively affects REO ($\beta$ = -.22, $p$ < .01). People-related CI does not influence REO ($\beta$ = -.03, $p$ > .05), leading to the rejection of $H_{2a}$. On the other hand, we support $H_{2b}$ since product-related CI enhances REO ($\beta$ = .29, $p$ < .01). The results uphold our expected $H_3$ path that people-related CI impacts product-related CI ($\beta$ = .32, $p$ < .01). While people-related CI does not moderate the effect of PD on REO ($\beta$ = .01, $p$ > .05), product-related CI does negatively condition the path ($\beta$ = .12, $p$ < .05). We thus reject $H_{4a}$ and support $H_{4b}$, respectively. In sum, our predictions regarding effects of CI on REO are supported in the case of product-related CI, whereas people-related CI affects REO indirectly via product-related CI. Results for the control variables show that product price (proxy for involvement) ($\beta$ = .10, $p$ < .05), relationship duration ($\beta$ = .46, $p$ < .01), and role in the supply chain ($\beta$ = .20, $p$ < .01)[1] all influence REO, but knowledge of partner country exerts no such effect on REO ($\beta$ = .04, $p$ > .05). The amount of REO variance explained in the model is 24.23%.

**Additional Analyses**

[1] This finding implies firms playing an importer role in the supply chain have greater REO. Role in the supply chain reflects that global wine traders may act as exporters, importers or else combine both roles at the firm-level (see Appendix B.1), even if the vast majority of our respondents (80.40%) opted to address the relationship-level study constructs with customers in mind (see Appendix B.2).

We validated the hypothesized model by comparing it with two theoretically plausible, alternative approaches to the relationship between PD and CI (including the same controls). Both alternatives exclude interaction effects between PD and CI as these were anchored in expectancy–value theory.

*Alternative model #1 (CI → PD).* In relation to decision-makers' cognitive processes, Bruner, Jacqueline, and Georges' (1956) categorization theory asserts that categorization is the process by which human beings group pieces of information (e.g., events, objects, and people around them) into classes and respond to them accordingly, in order to reduce complexity in their environment. In like manner, image theory situates CI as a category that helps individuals process and react to the origin cue among other information cues (Jaffe and Nebenzahl 2001). Following this logic, individuals form a mental representation of a foreign country that leads them to perceive (dis)similarities with their home country. Thus, alternative model #1 has CI as an antecedent to PD and tests the following relationships: the more positive the people-related CI, the lower the PD; and the more positive the product-related CI, the lower the PD.

*Alternative model #2 (PD → CI).* With respect to decision-makers' affective processes, Zajonc's (1968) mere-exposure theory proposes that repeated exposure to a stimulus increases the liking of this stimulus. Distance in all its forms impedes exposure, and thus reduces likability. The related theory of propinquity (Festinger, Schachter, and Back 1983), documented in the psychology of interpersonal attractiveness (i.e., people that are physically/psychologically similar tend to be attracted to each other), supports the idea that PD reduces the likeability and attractiveness of foreigners. Likewise, international marketing scholars have argued that since PD prevents information flows, it could reduce the attractiveness of foreign partners in relation to domestic ones (Johnston et al. 2012; Leonidou et al. 2011). Thus, alternative model #2 situates PD as an antecedent to CI and tests the

following relationships: the lower the PD, the more positive the people-related CI; and the lower the PD, the more positive the product-related CI.

As revealed in Table 6, the hypothesized model compares favorably against the alternative models in terms of both overall model fit and percentage of variance of the dependent variables (e.g., REO) explained. Therefore, we conclude that the hypothesized model is the best one.

**- Insert Table 6 about here -**

Another post-hoc analysis evaluated the hypothesized model on the basis of OLS regression. The regression results were fully consistent with our structural model testing of the hypotheses. Variance inflation factors from the regressions provided further evidence that multicollinearity is not an issue in the study. They ranged from 1.74 to 5.32, well below the recommended cut-off score of 10 (Kutner, Nachtsheim, and Neter 2004).

## DISCUSSION AND IMPLICATIONS

### Contrary Direct Effects of PD and CI

The results suggest PD and CI are non-negligible drivers of REO in exporter–importer ties that, however, play contrasting roles. On the one hand, we confirm a negative impact of PD on REO ($H_1$ is supported), which reflects prior research on relationship quality in international markets (Katsikeas et al. 2009; Leonidou et al. 2006; Skarmeas et al. 2008). On the other, our findings uncover a positive effect of product-related CI on REO with foreign partners ($H_{2b}$ is supported). This novel result echoes and extends prior research on the role of CI in supplier evaluations (Bradley 2001; Knight et al. 2007; Vinhas da Silva et al. 2001). While the hypothesized positive effect of people-related CI on REO is invalidated ($H_{2a}$ is not supported), it does not mean people-related CI is of no importance. Our results confirm the existence of a transfer from the macro image of people to the micro image of products ($H_3$ is supported). The implication is that the image of people can be a powerful tool to enhance the image of goods from specific

origins, even in an industrial context. The novelty of this insight for industrial marketing lies in that the transfer is taking place from the macro image conceptualized as a people-related facet and not by the PEST environment-related facet of CI. The finding reflects place branding work on the role played by citizens as brand ambassadors for their country (Dinnie 2008) and studies in consumer behavior showing the influence of *affect* toward people on product evaluations (Roth and Diamantopoulos 2009; Zeugner-Roth et al. 2008).

**A Favorable Micro CI Mitigates the Detrimental Effect of PD on REO**

Our results confirm the negative effect of PD on REO in international markets (Skarmeas et al. 2008). However, they tell a somewhat different story about the effect of PD when considered in combination with CI. First, we observe that people-related CI does not moderate the PD to REO path ($H_{4a}$ is not supported). By contrast, we find that product-related CI mitigates the negative effect of PD on REO ($H_{4b}$ is supported). The results support our proposition to situate CI as a boundary condition to the effect of PD, but nuances it to the dominant role of product-related CI.

The expectancy–value approach underscores that PD is not always highly detrimental in international channel relationships. In fact, PD can be mitigated by the introduction of valence factors. To explore the moderation effect in detail, we plotted the relationship between PD and REO in situations of high and low levels of product-related CI (see Figure 2). A strong product-related CI (i.e., positive beliefs about a country in connection to the product category) significantly reduces the negative influence of PD on REO. Firms should not be concerned about the negative effect of PD when they can utilize valence beliefs—stemming from a highly favorable product-related CI—that the relationship is worth the effort. Detrimental effects of PD are mainly relevant for firms with poor product-related CI.

**- Insert Figure 2 about here -**

When managers hold contradictory perceptions and beliefs about a foreign country (i.e., high PD and high product-related CI), REO with partners from the country can still be achieved. This observation could reflect the attractiveness of *exotic* business partners. Although the wine industry may appear relatively unique for valuing exotic suppliers, extent research on CI has demonstrated the existence of strong product–country matches in manufacturing sectors, where exoticism is of little importance, such as Germany and cars, the US and computers, and Japan and electronics (Dinnie 2008; Jaffe and Nebenzahl 2001). Alternatively, an explanation for observing that REO is enhanced in situations of high PD and positive product-related CI may be found in the theory of cognitive dissonance (Festinger 1957), which explains that when people hold conflicting beliefs, this creates a psychological discomfort that they try to reduce. One mechanism for reducing dissonance is to seek as much new information as possible (e.g., about the foreign country). Increased knowledge and understanding of differences may motivate managers to develop relationships with partners from the country.

**Theoretical Implications**

The study contributes to theory in three main ways. First, it contributes to explaining the mixed evidence on the effects of PD on exporter–importer relationships. Using a contingency perspective, we believe this study offers the first empirical validation of the role played by product-related CI in moderating the PD to REO association. Given its theoretical foundations in the expectancy–value approach, this result implies that factors increasing the worth of exchange with foreign partners may mitigate PD because they boost managerial motivation and the willingness to create close partnerships.

Our significant moderation finding extends existing insights in the international channels literature. For instance, Johnston et al. (2012) referred to calculative commitment and expected achievement of common goals to explain unexpected results that PD does not mitigate the relationships of trust and satisfaction with joint action. Studies on the effects of

PD on other foreign market entry strategy decisions also show the moderating role of factors increasing valence. For instance, Malhotra, Sivakumar, and Zhu (2009) have shown that market size moderates the effect of PD on international market selection. More broadly, economics studies based on the gravity theory of international trade (Tinbergen 1962) have shown that the attractiveness of countries in terms of economic mass (measured with their GDP, for instance) can override the negative impact of geographical distance. Product-CI is just one boundary condition that explains why the detrimental effect of PD can be significantly attenuated. Other factors increasing valence in exchange (e.g., market size, market share, corporate and individual reputations of partners, etc.) represent potential boundary conditions to PD and could further explain mixed evidence on the effects of PD.

The second theoretical implication of the study is that it provides a deeper understanding of the PD paradox. As an explanation for this paradox, O'Grady and Lane (1996, p. 324) noted that: "The phenomenon we have referred to as the psychic distance paradox seemed to be created by common, but unexplored, assumptions or underlying beliefs about the United States that decision-makers held in Canadian retail companies." Without naming it, O'Grady and Lane (1996) referred to the concept of CI. They attributed the poor performance of Canadian retailers to an overly favorable CI of the US in Canada, which not only created excessive expectations but also impeded required efforts to successfully enter the country. Our study provides an alternative explanation. We find that in a context of low levels of PD, its effect can be more detrimental if CI is poor (see Figure 2). A lower than expected CI of Canada in the US could thus explain why—despite low PD—Canadian retailers struggled. This view is supported by the fact that the paradox did not hold for US firms that successfully expanded in Canada. American firms may have benefited from a better CI in Canada (like PD, CI is asymmetric). In the same way, the ignored role of CI could explain several of the conflicting observations made by Stottinger and Schlegelmilch (1998). For instance, they were surprised that US managers

overestimated PD with Canada and Mexico but underestimated PD with Hong Kong. In light of our study, Hong Kong may simply have benefitted from a stronger CI. Integrating the role of CI could challenge Stottinger and Schlegelmilch's (1998) conclusions about the lack of relevance of the PD construct.

Evidently, we wish we could properly revisit conflicting evidence in the exporter–importer relationships literature. For instance, we might argue that Bello et al. (2003) did not observe a negative effect of PD on relationalism, or Zhang et al. (2003) and Leonidou et al. (2006) on trust, because a favorable CI had offset the effect of PD. Unfortunately, most studies on the role of PD in cross-border relationships have not documented the country-of-origin of foreign partners (see Table 1), precluding such alternative explanations. Indeed, from a methodological standpoint, studying boundary conditions (e.g., CI and other valence factors) to the effects of PD in international relationships ideally requires: documenting the country-of-origin of business partners; incorporating varying degrees of PD in survey designs; and harmonizing conceptualizations of PD (differences between countries or companies) and relationship selection criteria (size, representativeness, or difficulty) to enhance comparability of results.

The third theoretical implication lies in that the study reconciles research on PD with research on beliefs, attitudes, and behaviors. It offers the first empirical validation of the interplay between PD and CI and their mutual, yet contrasting, influence on behaviors in international markets (here, REO). Despite Håkanson and Ambos' (2010) call for reuniting the construct of PD with managerial attitudes and beliefs, research has been compartmentalized. We believe this is the case because the accepted definition of PD (as a perception) and theories traditionally used to study PD (i.e., transaction costs and social exchange theories) make it difficult to find common conceptual ground. The current study bridges the conceptual gap by taking a behavioral perspective, using the expectancy–value

approach (in particular Vroom's expectancy theory). As a result, this study suggests reconsidering the conceptualization of PD as a belief rather than a perception. A perception is defined as the way individuals select, organize, and interpret intrinsic (e.g., sights, sounds, smells, and tastes) or extrinsic stimuli (e.g., brand, price, country-of-origin) (Roth and Diamantopoulos 2009). A belief is defined as the subjective probability that an object (e.g., a country) has specific attributes (Fishbein and Ajzen 2010). Shifting from the idea that PD is the *perception of differences* between countries to the idea that it is the *belief that a foreign country has different attributes* compared to the home country, does not seem like much, but it would facilitate the use of behavioral theories related to cognition, affect, attitudes, motivation, and decision-making (e.g., Atkinson 1957; Festinger et al. 1983; Fishbein and Ajzen 2010; Vroom 1964). Thus, this study is a stepping-stone toward a finer understanding of the way managers develop distance perceptions and beliefs about foreign countries, which are then translated into attitudes and behaviors toward their people and products.

**Managerial Implications**

The current study provides managers with new ideas in two main respects. First, we propose alternative coping mechanisms when the effect of PD is detrimental in international channel relationships. Available recommendations have targeted *reducing distance* by means of, for instance, cross-cultural training, trips abroad, and language courses (Leonidou et al. 2006; Leonidou et al. 2011). Given our finding that *subjective* PD can attenuate REO in exporter–importer relationships, it is crucial that partners are able to calibrate, assess, and reduce their respective PD perceptions during formative phases of the relationship. These activities to reduce distance could be used to integrate the two sets of managers. In addition, our study encourages consideration of forms of CI in exchange strategies and communications with foreign partners. In this way, managers could work with their governments and trade

associations to reinforce their product-CI, as well as the people-CI (for its indirect effect), through participation in and funding of place branding campaigns and promotion activities (international trade fairs, commercial delegations to foreign countries, etc.) (Dinnie 2008).

Firms might also derive benefit from adapting their communication strategies according to the degree of favorability of their product-related CI. Marketers from countries with a positive micro image that are looking to develop relationships with psychically distant foreign business partners should not hesitate to flaunt the positive image of their country-of-origin for the production or consumption of goods (providing statistics or rankings, associations with positive attributes, etc.). Firms that lack a positive micro image could proactively dampen the presence of an origin cue in their communications, and highlight other cues (e.g., design, brand, and price). This suggestion aligns with strategies described by Deshpandé (2010) for firms from emerging markets to overcome the *provenance paradox* (i.e., not having a favorable product-CI in spite of producing quality products, such as Venezuela and chocolate, or Mexico and beer).

The second important managerial implication of the study is to show that efforts toward reducing PD could be misplaced in situations—such as a high level of product-related CI—where it has minimal impact on REO. This invites managers to learn about their foreign business partners' beliefs regarding their home country; to this purpose, they can use direct or indirect inquiries (e.g., through available country brand rankings).[2] Firms may adapt their market selection strategies accordingly. When confronted with an unfavorable product-related CI, managers should target markets where foreign partners have low PD evaluations and avoid high PD contexts. When armed with a favorable product-related CI, firms should not consider PD as a major impediment. They might even target countries where partners have high PD

[2] Examples include: www.simonanholt.com/Research/research-the-anholt-gfk-roper-nation-brands-index-sm.aspx, http://www.futurebrand.com/cbi/2014, and www.placebrandobserver.com/country-brand-rankings.

evaluations, since this set of circumstances could help firms differentiate from competitors with lower PD evaluations and avoid the distance paradox (e.g., shocks caused by unanticipated differences) in relational exchanges. In sum, firms with strong product-related CI should not always attempt to close PD, because they have the option of leveraging high levels of PD in their partnering strategies and still achieving and maintaining REO.

## LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

The results of the study need to be interpreted while bearing in mind certain limitations. First, although the research design enabled the collection of a high quality sample characterized by large degrees of variation in terms of PD and CI, future studies should work toward the collection of representative samples of narrower portions of an industry's value chain (e.g., exporter–importing distributor), in order to increase specificity and precision of the results. Second, the risk of potential selection bias from our unit of analysis (i.e., relationships with the largest business partners in different countries) impacting generalizability of the results should be controlled for. Third, as the wine industry is sensitive to CI, replications of the study in other industry-specific contexts will also help establish the external validity and generalizability of the findings. Finally, the study has other limitations common with research on interfirm relationships (e.g., non-matched relationships and one informant per company), which future studies should tackle when aiming to confirm our results.

Overall, six avenues for future research are particularly promising in relation to the study implications. It is important that researchers: First, test the effectiveness of place branding activities in reducing or leveraging the effect of PD in international channel relationships; Second, target explaining greater REO variance by using other antecedents in addition to PD and CI (e.g., relationship value, uncertainty/volatility, and interdependence/power); Third, integrate conceptually environment-related CI with product- and people-related CI to unravel their nebulous linkages with PD; Fourth, test the impact of other valence factors (market size,

partners' market share, product price and complexity, product involvement, etc.) as moderators to the effect of PD; Fifth, widen the conceptualization of PD as a subjective influence alone—although our approach is consistent with theories of motivation, both real and perceived distance between markets place added significance on developing cross-border relationships (Samiee, Chabowski, and Hult 2015); Sixth, cross-fertilize the expectancy–value approach using related motivation and cognitive/affective theories (e.g., reasoned action theory, categorization theory, and mere-exposure theory) pertinent to PD in international markets.

Stottinger and Schlegelmilch (2000, p. 172) commented that: "Only when antecedents to and dimensions of the construct of psychic distance are established can strategies to overcome psychic distance be developed." Fifteen years later, significant effort has resulted in a satisfactory understanding of antecedents and dimensions of the PD construct (Brewer 2007; Evans and Mavondo 2002b; Sousa and Lages 2011). Nevertheless, highly inconsistent results still lead us to question, and defend, the relevance of the psychic and cultural distance constructs (e.g., Shenkar 2001; Zaheer, Schomaker, and Nachum 2012). The relevance of CI is also facing acute criticism as to its theoretical and operational foundations (e.g., Josiassen and Harzing 2008; Samiee 2011). By showing that previously unexplored boundary conditions (i.e., CI) to the effect of PD exist in exporter–importer ties (Magnusson and Boyle 2009), this study invites researchers to move on from questions concerning *what* PD is and *why* it would or would not matter, and to start focusing on *when* it matters. In order to develop relevant strategies to overcome the effects of PD in international markets, this study strongly suggests that scholars steer their focus toward managers' motivations in future research.

## Table 1
## Selected Empirical Studies on the Effects of Psychic Distance in Exporter–Importer Relationships

| Study | Conceptual and Empirical Highlights | Research Setting and Unit of Analysis |
|---|---|---|
| Leonidou et al. (2002) | **Purpose**: Comparing harmonious and problematic relationships with foreign customers (degree of satisfaction) on, for e.g., latent (dependence, distance, trust, uncertainty, understanding) and manifest (adaptation, commitment, communication, conflict, cooperation) atmosphere<br>**Conceptualization**: Distance refers to the degree of unfamiliarity of one party in a business relationship with the characteristics of the other, with regard to social, cultural, structural, and procedural aspects such as business environment, working methods, structure, etc.<br>**Findings**: Greater trust, commitment, communication, and cooperation, and lesser distance, between the parties, characterize harmonious relationships | **Companies**: Exporting manufacturers<br>**Industries**: Industrial goods including machine tools, supplies and materials~75%, and consumer goods including household durables, foodstuffs and beverages~25%<br>**Home/Foreign countries**: US/83, unspecified<br>**Relationship**: Foreign customers in general |
| Bello et al. (2003) | **Purpose**: Testing the impact of relationalism (information exchange, solidarity, flexibility) and its antecedents (resource inadequacy, manufacturer dependence, market volatility, product complexity, human content, psychic distance) on distributor performance<br>**Conceptualization**: Psychic distance refers to problems a firm encounters due to its ignorance of sociocultural differences (culture, language, customs and values of the people, business practices) experienced in the foreign market<br>**Findings**: No significant effect of psychic distance on relationalism | **Companies**: Exporting manufacturers<br>**Industries**: Unspecified<br>**Home/Foreign countries**: US/Unspecified<br>**Relationship**: A single, focal export distributor and foreign market |
| Zhang et al. (2003) | **Purpose**: Testing the impact of trust and manufacturer reliance on relational norms on manufacturer competitiveness in the export market; and cultural distance, hostility of legal/institutional environment, and relative dependence on foreign distributor as antecedents<br>**Conceptualization**: Cultural distance refers to country differences on Hofstede's (1980) dimensions, based on Kogut and Singh's (1988) index<br>**Findings**: Cultural distance has no significant impact on trust and relational norms | **Companies**: Exporting manufacturers<br>**Industries**: Heavy equipment and machinery, appliances, medical equipment, and electronics<br>**Home/Foreign countries**: US/Unspecified<br>**Relationship**: The most challenging foreign distributor |
| Leonidou et al. (2006) | **Purpose**: Testing the impact of uncertainty, conflict, and distance on relationship quality (trust, commitment, satisfaction, communication, cooperation, adaptation, understanding)<br>**Conceptualization**: See Leonidou et al. (2002)<br>**Findings**: Partially validates the negative impact of distance on relationship quality; observed for commitment, communication, cooperation, and satisfaction but not for other quality components | **Companies**: Exporting manufacturers<br>**Industries**: From machine tools and accessory equipment to component parts and raw materials<br>**Home/Foreign countries**: US/Unspecified<br>**Relationship**: The majority of foreign customers |
| Skarmeas et al. (2008) | **Purpose**: Testing the impact of drivers related to markets (psychic distance, environmental uncertainty) and exporters (role performance, transaction specific investments) on relationship quality (trust, commitment, satisfaction)<br>**Conceptualization**: Psychic distance refers to the perceived dissimilarity between foreign and domestic operating environments in terms of culture (traditions, values, language), accepted business practices, economic environment, legal system, and communication infrastructure<br>**Findings**: Psychic distance negatively affects relationship quality | **Companies**: Importing distributors<br>**Industries**: Machinery and equipment, chemicals, textiles, and paper<br>**Home/Foreign countries**: UK/Unspecified<br>**Relationship**: The largest, third largest, or fifth largest foreign supplier |
| Katsikeas et al. (2009) | **Purpose**: Testing the effect of trust on performance outcomes, moderated by interdependence; and opportunism, internal and external uncertainty, transaction specific assets, and psychic distance as antecedents<br>**Conceptualization**: See Skarmeas et al. (2008) | **Companies**: Importing distributors<br>**Industries**: See Skarmeas et al. (2008) |

| | | |
|---|---|---|
| | **Findings**: Psychic distance positively affects opportunism and negatively affects trust | **Home/Foreign countries**: UK/32 countries (EU~42%, North America~23%, Far East~23%)<br>**Relationship**: See Skarmeas et al. (2008) |
| Leonidou et al. (2011) | **Purpose**: Testing effects of adaptation on relationship efficiency and effectiveness, moderated by dependence and distance; and trust, commitment, cooperation, and communication as antecedents<br>**Conceptualization**: See Leonidou et al. (2002)<br>**Findings**: Distance reduces the positive effect of relationship adaptation on relationship effectiveness and efficiency | **Companies**: Importers<br>**Industries**: Unspecified<br>**Home/Foreign countries**: UK/Western Europe and North America<br>**Relationship**: Most representative one with a foreign supplier (e.g., duration > five years) |
| Heroux and Hammoutene (2012) | **Purpose**: Exploring differences in perceptions between US and Canadian managers in terms of dependence, understanding, commitment, communication, uncertainty, conflict, and distance in relationships with foreign partners<br>**Conceptualization**: Distance is the degree of unfamiliarity of one business party with the other<br>**Findings**: Trust is the only dimension of relationships on which perceptions differ; psychic distance is relatively small between US and Canada | **Companies**: Exporters (pure exporting~50%, hybrid, also with manufacturing~50%)<br>**Industries**: Unspecified<br>**Home/Foreign countries**: US and Canada/The same<br>**Relationship**: Unspecified |
| Johnston et al. (2012) | **Purpose**: Testing effects of trust and satisfaction on joint action; communication frequency and bi-directionality as antecedents; and psychic distance as a moderator of these links<br>**Conceptualization**: Psychic distance refers to buyers' perceptions of the differences between the operating environments of buyers and sellers in an international exchange relationship<br>**Findings**: Psychic distance reduces positive effects of communication on trust and satisfaction but does not moderate effects of trust and satisfaction on joint action | **Companies**: Importers<br>**Industries**: Unspecified<br>**Home/Foreign countries**: Taiwan/China~17%, US~13%, Japan~12%, Singapore~11%, and Hong Kong~9%<br>**Relationship**: Unspecified |
| Leonidou et al. (2014) | **Purpose**: Conducting a meta-analysis on the antecedents (opportunism, conflict, communication, cultural distance, adaptation), components (cooperation, trust, commitment), and outcomes (relationship performance, financial performance) of relationship quality<br>**Conceptualization**: Distance is any prevention, delay, or distortion of information shared between partners in a relationship that keeps them apart<br>**Findings**: Distance negatively affects cooperation, trust, and commitment and, thus, relationship quality | **Companies**: Exporters~58%, importers~27%, dyads but not necessarily matched~15%<br>**Industries**: Unspecified (i.e., meta-analysis)<br>**Home/Foreign countries**: US~27%, UK~13%, China~10%, and Australia~8%/Unspecified<br>**Relationship**: Foreign partners as a whole or with a particular partner |
| Griffith and Dimitrova (2014) | **Purpose**: Testing effects of business and cultural distance on complementarity of capabilities, which is expected to impact satisfaction with performance (moderated by distance)<br>**Conceptualization**: Business distance refers to perceived differences in the economic environment, legal and political system, business practices, market structure, and language; cultural distance refers to perceived differences across Hofstede's (1980) dimensions<br>**Findings**: Business distance negatively affects complementarity; business distance and cultural distance have opposite effects in moderating the complementarity to satisfaction path (the former reduces the effect, while the latter enhances it); and cultural distance negatively impacts satisfaction | **Companies**: Exporters<br>**Industries**: Unspecified, but manufacturing sector<br>**Home/Foreign countries**: US/Unspecified<br>**Relationship**: The primary foreign buyer |
| Skarmeas et al. (2015) | **Purpose:** Testing effects of relationship-specific assets, knowledge sharing, complementary capabilities, and relational norms, as well as psychic distance (moderated by cultural sensitivity), on relationship value, which is expected to affect relational outcomes (insensitivity to competitive offerings and future purchase expansion)<br>**Conceptualization**: See Skarmeas et al. (2008)<br>**Findings**: Psychic distance negatively affects relationship value under conditions of low cultural sensitivity | **Companies**: Importing firms<br>**Industries**: Machinery, equipment, chemicals, and textiles<br>**Home/Foreign countries**: UK/Unspecified<br>**Relationship**: See Skarmeas et al. (2008) |

**Table 2**
**Selected Empirical and Conceptual Studies on Country Image**

| | **Country Image** | | |
|---|---|---|---|
| | **Macro Country Image** | | **Micro Country Image** |
| | ***Environment-related Country Image*** | ***People-related Country Image*** | ***Product-related Country Image*** |
| **Conceptualization** | An individual's beliefs about a country in connection to its political, economic, sociocultural, and technological (PEST) environment | An individual's beliefs about a country in connection to its people | An individual's beliefs about a country in connection to a specific product category |
| **Operationalization** | Extent to which a country's environment is characterized by, for instance: economic development, per capita income, technological research, standard of living, unemployment, labor costs, industrialization, literacy, education, welfare system, civilian non-military government, free market, and democracy | Extent to which people from a specific country are characterized by, for instance: likeability, trustworthiness, friendliness, creativity, knowledge, competence, education, and hard work | Extent to which products from a specific country are characterized by, for instance: quality, reliability, innovativeness, design, prestige, and workmanship; or extent to which a country is capable of conceiving, designing, engineering, or assembling a given product category |
| **Representative Studies** | | | |
| Roth and Romeo (1992) | | | X |
| Martin and Eroglu (1993) | X | | |
| Parameswaran and Pisharodi (1994) | X | X | X |
| Ahmed and D'Astous (1995) | | | X |
| Verlegh and Steenkamp (1999) | X | X | X |
| Jaffe and Nebenzahl (2001) | | | X |
| Bradley (2001) | | X | X |
| Pharr (2005) | X | | X |
| Laroche et al. (2005) | X | X | X |
| Knight et al. (2007) | X | | X |
| Josiassen et al. (2008) | | | X |
| Zeugner-Roth et al. (2008) | | X | |
| Roth and Diamantopolous (2009) | X | X | X |
| Oberecker and Diamantopoulos (2011) | X | | X |

**Figure 1**
**Theoretical Model**

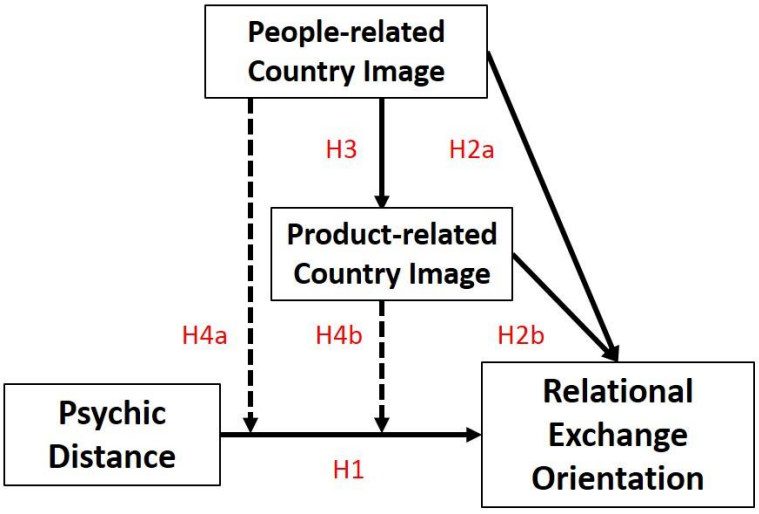


**Table 3**
**Measurement Model Results**

| Factors | Standardized Loadings | t-values |
|---|---|---|
| **Relational Exchange Orientation** (AVE = .75; CR = .93; α = .95) | | |
| REO1 – Trusting | .85 | 11.72 |
| REO2 – Cooperating | .89 | 11.99 |
| REO3 – Committing | .89 | 11.91 |
| REO4 – Long-term oriented | .85 | 11.29 |
| REO5 – Close and personal | .89 | 11.83 |
| REO6 – Communicating | .82 | 11.05 |
| **Psychic Distance** (AVE = .65; CR = .87; α = .91) | | |
| PD1 – Economic and industrial development | .83 | 11.41 |
| PD2 – Communication infrastructure | .78 | 10.01 |
| PD3 – Marketing infrastructure | .79 | 10.58 |
| PD4 – Administrative and technical procedures | .78 | 9.98 |
| PD5 – Laws and regulations | .79 | 10.05 |
| PD6 – Per-capita income | .83 | 11.13 |
| PD7 – Purchasing power of consumers | .82 | 11.10 |
| PD8 – Lifestyles | .89 | 11.96 |
| PD9 – Consumer preferences | .77 | 9.89 |
| PD10 – Level of literacy and education | .83 | 11.34 |
| PD11 – Cultural values, beliefs, attitudes and traditions | .71 | 8.83 |
| *Two items dropped after pretest: "Market competitiveness" and "Language"* | | |
| **People-related Country Image** (AVE = .58; CR = .71; α = .74) | | |
| PeoCI1 – Technical skills and training | .77 | 9.92 |
| PeoCI2 – Friendly and likeable | .74 | 9.15 |
| PeoCI3 – Creative | .74 | 9.17 |
| *Two items dropped after pretest: "Well educated" and "Hardworking"* | | |
| **Product-related Country Image** (AVE = .71; CR = .81; α = .88) | | |
| PrdCI1 – Volume | .75 | 9.74 |
| PrdCI2 – Know-how/knowledge | .90 | 12.53 |
| PrdCI3 – Quality | .89 | 11.98 |
| PrdCI4 – Reputation | .87 | 11.71 |
| Model fit: $\chi^2$ (df = 206) = 340.00, $p < .01$; GFI = .94; NFI = .96; CFI = .98; TLI = .98; RMSEA = .05 | | |

*Note*: AVE = Average variance extracted; CR = Composite reliability; α = Cronbach's alpha

**Table 4**
**Correlations among Latent Variables, Means, and Standard Deviations**

| **Constructs** | **1.** | **2.** | **3.** | **4.** | **5.** | **6.** | **7.** | **8.** |
|---|---|---|---|---|---|---|---|---|
| **1.** Relational exchange orientation | 1 | | | | | | | |
| **2.** Psychic distance | -.36 | 1 | | | | | | |
| **3.** People-related country image | .17 | -.01 | 1 | | | | | |
| **4.** Product-related country image | .39 | -.26 | .13 | 1 | | | | |
| **5.** Product price | .31 | .06 | .10 | .06 | 1 | | | |
| **6.** Relationship duration | .41 | -.18 | .13 | .20 | .04 | 1 | | |
| **7.** Knowledge of partner country | .08 | -.08 | .00 | .02 | .01 | .12 | 1 | |
| **8.** Role in the supply chain | .35 | -.18 | .13 | .10 | .04 | -.02 | .10 | 1 |
| Mean | 2.76 | 3.03 | 3.18 | 2.81 | 2.84 | 3.15 | 1.43 | 1.70 |
| Standard deviation | 1.18 | 1.33 | .74 | 1.09 | 1.48 | 1.66 | .60 | .85 |

*Note*: correlations greater than .15 or less than –.15 are significant at $p = .05$

**Table 5**
**Structural Model Results**

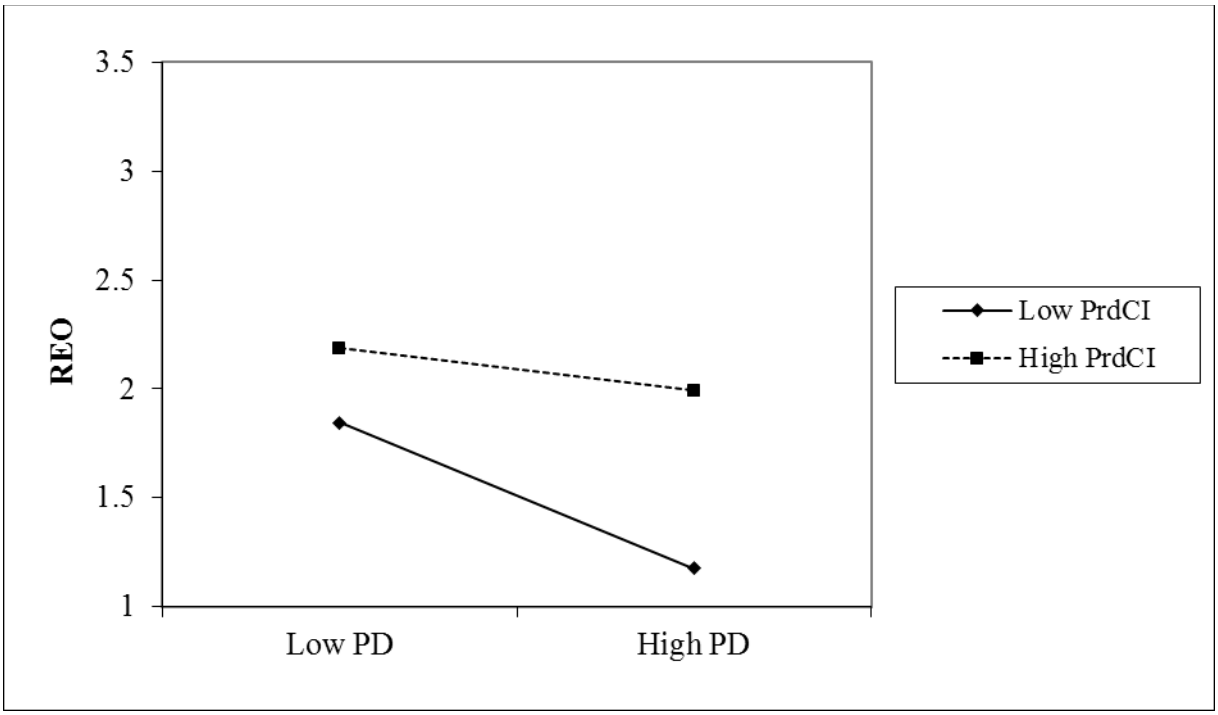
| **Structural Paths** | **Path Coefficients** | **t-values** |
|---|---|---|
| *Hypothesized paths* | | |
| $H_1$. Psychic distance → Relational exchange orientation | -.22 | -24.00** |
| $H_{2a}$. People-related country image → Relational exchange orientation | -.03 | -.27 |
| $H_{2b}$. Product-related country image → Relational exchange orientation | .29 | 24.08** |
| $H_3$. People-related country image → product-related country image | .32 | 8.92** |
| $H_{4a}$. Psychic distance × People-related country image → Relational exchange orientation | .01 | .45 |
| $H_{4b}$. Psychic distance × Product-related country image → Relational exchange orientation | .12 | 2.03* |
| *Control paths* | | |
| Product price → REO | .10 | 2.40* |
| Relationship duration → REO | .46 | 65.28** |
| Knowledge of partner country → REO | .04 | .77 |
| Role in the supply chain → REO | .20 | 12.68** |
| Model fit: $\chi^2$(df = 27) = 62.10, p = .02; GFI = .91; NFI = .92; CFI = .94; TLI = .91; RMSEA = .06 | | |

*Note*: *$p$ < .05, **$p$ < .01

**Table 6**
**Comparative Analysis of Alternative Models**

| **Indices** | **Hypothesized Model** (CI moderates effect of PD) | **Alternative Model #1** (CI → PD) | **Alternative Model #2** (PD → CI) |
|---|---|---|---|
| $\chi 2$/df | 2.30 | 3.80 | 5.20 |
| GFI | .91 | 0.81 | 0.73 |
| NFI | .92 | 0.71 | 0.70 |
| CFI | .94 | 0.84 | 0.81 |
| TLI | .91 | 0.89 | 0.80 |
| RMSEA | .06 | 0.09 | 0.12 |
| $R^2$ Relational exchange orientation | 24.23% | 20.11% | 19.30% |
| $R^2$ Psychic distance | – | – | 6.21% |
| $R^2$ Product-related country image | 17.51% | 16.73% | 15.42% |
| $R^2$ People-related country image | – | – | – |

**Figure 2**
**Plot of the Moderating Role of Product-Related Country Image in the Relationship of Psychic Distance and Relational Exchange Orientation**



## APPENDIX A
## Operationalization of Constructs

*Note*: Text between brackets is dependent upon early responses given by participants (perspective of the buyer or seller, work country, country of origin of selected partner #1 and #2) and is automatically replaced by the survey software.

| Scale | From 1 = | To 5 = |
|---|---|---|
| **Relational exchange orientation (REO):** *"Please indicate how you would characterize business with the [Provider/Customer] in [Country #1/#2]:"* | | |
| **REO1** | Low trust | High trust |
| **REO2** | Little cooperation | Strong cooperation |
| **REO3** | Low commitment | High commitment |
| **REO4** | Short-term orientation | Long-term orientation |
| **REO5** | Purely arms' length transactions | Close and personal relationships |
| **REO6** | Superficial information exchange | Meaningful information exchange |
| **People-related country image (PeoCI):** *"In [Country #1/#2], people…"* | | |
| **PeoCI1** | Have low levels of technical skills and training | Have very high levels of technical skills and training |
| **PeoCI2** | Are not friendly and likeable at all | Are very friendly and likeable |
| **PeoCI3** | Are not creative at all | Are extremely creative |
| **Product-related country image (PrdCI):** *"In [Country #1/#2], [Producers/Consumers] are known for…"* | | |
| **PrdCI1** | [Producing/Consuming] very small volumes of wine | [Producing/Consuming] very large volumes of wine |
| **PrdCI2** | Having very little [know-how/knowledge] about wines | Having tremendous [know-how/knowledge] about wines |
| **PrdCI3** | [Very low quality wines/Appreciating low quality wines] | [Very high quality wines/Appreciating high quality wines] |
| **PrdCI4** | [Being bad wine producers/Having no international reputation for consuming wine] | [Being excellent wine producers/Having a widespread international reputation for consuming wine] |
| **Psychic distance (PD):** *"Compared to [Work country], [Country #1/#2] is:" (1=extremely similar to 5=extremely different)* | | |
| **PD1** | Level of economic and industrial development | |
| **PD2** | Communications infrastructure | |
| **PD3** | Marketing infrastructure | |
| **PD4** | Administrative and technical procedures | |
| **PD5** | Laws and regulations | |
| **PD6** | Per-capita income | |
| **PD7** | Purchasing power of consumers | |
| **PD8** | Lifestyles | |
| **PD9** | Consumer preferences | |
| **PD10** | Level of literacy and education | |
| **PD11** | Cultural values, beliefs, attitudes and traditions | |

**APPENDIX B.1**
**Sample Description: Respondents and Their Firms (n=179)**

| | |
|---|---|
| **Language selection** | English: 39.1%; French: 26.3%; Spanish: 26.3%; Portuguese: 5.6%; Mandarin: 1.7%; Russian: 1.1% |
| **Position** | Owner/CEO: 29.6%; Top management (general manager): 25.7%; Middle management (purchasing manager, sales manager, export manager/director): 32.4%; Staff (purchasing agent/staff, sales and marketing staff, agent): 9.5%; Technical and consulting (enologist, sommelier, adviser): 2.8% |
| **Experience in position** | Less than 1 year: 6.1%; 1-3 years: 16.8%; 3-5 years: 16.2%; 5-10 years: 26.3%; 10-15 years: 17.3%; 15-20 years: 9.5%; Over 20 years: 7.8% |
| **Work country of respondent** | *35 Countries:* France: 18.4%; Italy: 15.1%; Spain: 12.8%; Portugal: 7.3%; Argentina: 5.0%; Australia: 4.5%; Canada: 3.9%; Chile, Mexico: 2.8% (each); South Africa, USA: 2.2% (each); China, Greece, Netherlands, Norway, Switzerland, UK: 1.7% (each); Cyprus, Georgia, New Zealand, Puerto Rico, Russia: 1.1% (each); Belgium, Bolivia, Croatia, Germany, Hong Kong, Macedonia, Malaysia, Singapore, Slovenia, Togo, Uganda, Uruguay, Venezuela: .6% (each) |
| **Native country of respondent** | *39 Countries:* France: 19.6%; Italy: 14.0%; Spain: 13.4%; Portugal: 6.1%; Argentina: 4.5%; UK: 3.4%; Canada, Chile: 2.8% (each); Australia, Mexico, Netherlands, South Africa, Switzerland, USA: 2.2% (each); Greece, New Zealand: 1.7% (each); Belgium, China, Cyprus, Germany, Georgia, Puerto Rico: 1.1% (each); Bolivia, Burundi, Croatia, Denmark, Kenya, Macedonia, Malaysia, Mongolia, Romania, Russia, Singapore, Slovenia, Togo, Uruguay, Venezuela: .6% (each) |
| **Firm size** | Under 10 employees: 57.5%; 11-50 employees: 28.5%; 51-100 employees: 6.7%; 101-250 employees: 3.4%; 251-500 employees: 1.1%; 501-1,000 employees: 1.1%; Over 1,000 employees: 1.7% |
| **Firm type** | *Firms with activities located:* Upstream of the value chain: 61% (Producer; Exporter; Producer and exporter); Across the whole value chain: 10% (Producer, exporter, and importer; Producer, exporter, and wholesaler; Producer, exporter, and retailer; Producer, wholesaler and retailer; Exporter, importer and wholesaler; Producer, exporter, importer and wholesaler; Producer, exporter, wholesaler, and retailer; Exporter, agent/broker and wholesaler; Exporter, agent/broker, importer and wholesaler); Downstream of the value chain: 29% (Importer; Agent/broker; Wholesaler; Retailer; Importer and wholesaler; Importer and retailer; Importer, wholesaler, and retailer; Agent/broker, importer, and wholesaler; including "other activities" for 2.8%, i.e. consultancy companies, wine school, sommelier, and winemaker association). |
| **Market type** | *Do business with partners from:* Both traditional and emerging market/supply markets: 67.0%; Traditional market/supply markets only: 27.4%; Emerging market/supply markets only: 5.6% |

**APPENDIX B.2**
**Sample Description: Interfirm Relationships (n=358)**

| | |
|---|---|
| **Product type** | *Type:* Red wine: 80.40%; White wine: 13.40%; Sparkling wine: 4.50%; Rosé wine: 1.70%; |
| **Retail price** (US$) | *Retail price:* Under 5$: 15.10%; 5$-9.99$: 30.70%; 10$-14.99$: 24.60%; 15$-19.99$: 15.60%; 20$-29.99$: 7.80%, 30$-39.99$: 2.80%; Over 40$: 3.40% |
| **Type of relationship** | *Selected relationships with*: Customers: 80.40%; Suppliers: 19.60% |
| **Duration of relationship** | Under 1 year: 15.60%; 1-3 years: 31.00%; 3-5 years: 14.20%; 5-10 years: 19.60%; 10-15 years: 9.80%; 15- 20 years: 7.30%; Over 20 years: 2.50% |
| **Partner country (16 countries)** | **Respondent country, i.e., work country (35 countries)** |
| USA (17.00%) | France: 4.74%; Italy: 3.63%; Spain: 1.95%; Argentina: 1.39%; New Zealand, Greece, Portugal: .55% (each); Canada, Chile, Germany, UK, Bolivia, Georgia, Mexico, Netherlands, Norway, Puerto Rico, Singapore, Switzerland, Uruguay: .28% (each) |
| China (16.00%) | France: 4.46%; Italy: 2.79%; Spain: 2.23%; Australia: 1.95%; Portugal, South Africa: .84% (each); Greece: .55%; Argentina, Germany, New Zealand, Croatia, Georgia, Macedonia, Singapore, Switzerland: .28% (each) |
| Germany (15.65%) | Italy, Spain: 3.63% (each); France: 2.23%; Portugal: 1.67%; Greece Argentina, Chile, South Africa: .55% (each); USA, Croatia, Georgia, Macedonia, Netherlands, Norway, Slovenia, Switzerland: .28% (each) |
| U.K (9.50%) | France: 3.00%; Italy: 1.95%; Spain: 1.39%; Portugal: .84%; Australia: .55%; Russia, South Africa, UK, Cyprus, Norway, Switzerland: .28% (each) |
| Brazil (9.21%) | Argentina: 1.95%; Portugal: 1.67%; Spain: .55%; Chile, France: 1.11% (each); Italy, New Zealand, South Africa, Belgium, Bolivia, Mexico, Norway, Puerto Rico, Switzerland, Uruguay: .28% (each) |
| France (8.10%) | Canada: 1.11%; China, Portugal, Spain: .83% (each); Italy, UK, Hong Kong, Mexico, Netherlands, Norway: .55% (each); Belgium, Cyprus, Togo, Uganda: .28% (each) |
| Russia (6.14%) | France: 1.67%; Italy: 1.11%; Spain: .83%; Argentina, Chile, Portugal: .55% (each); Russia, Cyprus, Georgia, Slovenia: .28% (each) |
| Canada (5.60%) | Australia: 1.39%; Spain: 1.11%; France, Italy: .83%; Portugal, Argentina: .55%; Chile, Mexico: .28% (each) |
| Spain (3.00%) | Canada: .83%; China, Mexico: .55% (each); Russia, USA, Malaysia, Puerto Rico: .28% (each) |
| Italy (2.50%) | USA: .83%; Canada, China, UK , Cyprus, Netherlands, Switzerland: .28% (each) |
| Chile (2.23%) | Canada, Mexico: .83% (each); USA, Venezuela: .28% (each) |
| Argentina (1.95%) | USA: .55%; Canada, Italy, Malaysia, Puerto Rico, Venezuela: .28% (each) |
| India (1.11%) | Australia: .55%; France, South Africa: .28% (each) |
| S. Africa (1.11%) | Spain, UK, Togo, Uganda: .28% (each) |
| N. Zealand (.55%) | Canada, Russia: .28% (each) |
| Portugal (.28%) | Netherlands: .28% |

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